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Ms Margaret Arblaster  
General Manager  
Transport and Prices Oversight  
Australian Competition and Consumer Commission  
GPO Box 520  
Melbourne VIC 3000

Dear Ms Arblaster

I am writing to provide the ACCC with Australia Post's submission on public disclosure issues raised in the ACCC's papers released in July 2006.

Post's detailed response is set out in Attachments 1 and 2. These attachments confirm the substantial additional disclosure now proposed by Post and which is as discussed with ACCC staff since the July 2006 papers were released.

In forming this submission, we have had regard to the ACCC's view "that much of the additional information requested by interested parties is not relevant to the ACCC undertaking its regulatory functions". Consequently, this submission focuses only on potential disclosure choices which we believe are likely to be of most interest to the ACCC.

Post's proposed main information disclosure can be summarised as follows:

- Disclosure of revenue for each service group in Reserved services;
- Breakup of total costs into the Direct, Attributable and Unattributable components for Reserved services as a whole;
- Cost shares for each Reserved service group as a % of Total cost for that group;
- Revenue, Direct cost, Attributable cost and Unattributable cost for Non-reserved Letters, Parcels and Logistics, Retail and Agency, and Other non-reserved services, but not for individual service groups within those headline segments; and
- Greater identification of segments and financial data in the text section of the July 2006 report.

Post understands the desire for greater transparency in the public reports. We agree that, as the report now stands, it is not possible for other readers to determine either the identity of items on which the ACCC might need to comment or the materiality of the financial magnitudes involved. The changes that we are proposing will enable those items to be clearly stated.

Attachment 1 sets out Post's submission to the July 2006 paper "Principles for the public disclosure of record-keeping rule information provided by Australia Post".

Attachment 2 sets out Post's proposed additional disclosures to the July 2006 paper "Assessing cross-subsidy in Australia Post".

Yours sincerely

A handwritten signature in black ink, appearing to read "Peter Meehan". The signature is fluid and cursive, with a large initial "P" and "M".

**Peter Meehan**  
**Chief Finance Officer**

Attachs

**Principles for the public disclosure of record-keeping rule information provided by Australia Post - Australia Post Submission**

**Preliminary Comment**

Section 2.1 of the July 2006 Discussion Paper requested that parties wishing to submit confidential information provide the ACCC with both non-confidential and confidential versions of their submissions.

Post is not requesting that any part of this submission be kept confidential.

***Q.1 Is the level of disclosure in the ACCC's first cross-subsidy report sufficient?***

Post's submission dated 1 December 2005 remains relevant to this question.

In responding to this question we suggest that the level of disclosure should be sufficient for the purpose of the Report. That purpose is the identification of any subsidy and whether the reserved letter service is the source of any subsidy found.

Disclosure decisions should reflect the Report's findings. If there is no subsidy identified then there is little need to disclose material. If there is a subsidy, then the disclosures will need to reflect the source of the subsidy. Because the legislation is concerned to identify subsidy from reserved to non-reserved services, and not cross-subsidy within non-reserved services, disclosure needs are comparatively limited if there is no reserved service involvement.

This indicates that disclosure choices for each Report should be made by the ACCC in the light of that particular Report's conclusions, rather than to a general formula in advance.

The information disclosed in the current version of the 2004/05 Report is not sufficient for the Report's purposes. It is not possible in the current version of the 2004/05 Report to identify:

- how large the Reserved letter service groups are;
- cost structures of the Reserved letter service groups;
- revenues and cost structures of Non-Reserved segments, ie at a level higher than that of individual service group;
- service groups that appear to be the recipients of a subsidy;
- the size of any such subsidy; and
- analysis of how such a subsidy might arise.

**Q.2 What type of information collected under the RAF and not disclosed would assist interested parties in making submissions to the ACCC's consultation processes relating to its regulatory functions or would otherwise be in the public interest to disclose? How would this information be of use?**

In view of the fact that the Report's purpose is to make conclusions about the existence of any cross-subsidy between reserved and non-reserved services, Post accepts that the identity of any cross-subsidy needs to be disclosed.

Post also accepts that, if a cross-subsidy from reserved to non-reserved services is found to exist, then the size of the subsidy is a relevant item for disclosure. A subsidy that is material in the context of the segment size concerned presumably would lead to conclusions different from those that would be drawn when a subsidy is not material.

In cases where a subsidy is found, it may be useful for the ACCC to comment on any apparent reason for a subsidy to exist. For example, unit revenues for some incoming International letters are set by an international agency at levels below Post's unit costs for those items. Explanatory items such as this would be material information in view of the purposes of the Report.

In terms of the items listed under Q.1 above:

- revenue is relevant for disclosure at some level, as it shows the size of any possible service group source of cross-subsidy;
- cost structures at the appropriate level are relevant. In Post's business the split between Direct, Attributable and Unattributable will differ across services. As a general outcome, the great majority of costs for letter and parcel services is Attributable rather than Direct. Other services have a relatively higher element of direct cost;
- it is important to identify services that are recipients of subsidy under the tests adopted by the ACCC, as that is the purpose of the Report. We note that special interest groups, for example newsagents, will not be able to have any concerns allayed unless any subsidised services are identified;
- the size of any subsidy may be useful to disclose. If any such subsidy is small in the context of the service group size, the reserved service size, the size of the business and/or the size of the market concerned, then conclusions drawn may differ compared with a material case of subsidy; and
- commercial reasons for the existence of any subsidy identified are relevant. In Post's case for 2004/05, relevant items are logistics and incoming international letters. Post's explanations on the background to items such as these have been provided to the ACCC, and it would be reasonable for the ACCC to put its views on these in the Report.

The ACCC will note that, in proposing these disclosures, Post has moved considerably from the more restrictive position contained in our submission of 1 December 2005. However, that submission has not now become irrelevant. When there is a doubt over whether to make a disclosure or not, our position is likely to have regard to the principles set out in that submission.

**Q.3 How would disclosure of additional RAF information harm Australia Post's legitimate commercial interests?**

There are issues arising in this question relating to revenues, costs, assets, and volumes.

**Revenues**

Reserved service revenue

Post's previous position would have restricted reserved service revenue to only the total for all reserved letter services.

In the interest of aiding transparency, Post now will not object to disclosure of revenue for each of the service groups in the reserved services. This list comprises:

- Small letters ordinary;
- Small letters presort;
- Large letters ordinary;
- Large letters presort; and
- International inward.

Non-reserved service revenue

Two sets of portfolio revenues are already public information, ie Parcels and Logistics, and Retail and Agency services. These numbers are clearly appropriate for disclosure.

Post proposes that two other sets of non-reserved service revenues be disclosed at headline level. These are:

- Non-reserved letters;
- Other non-reserved services

For all non-reserved items, Post considers that revenue for individual service groups is commercial-in-confidence and is not appropriate for disclosure.

There are two main reasons for this:

- companies do not normally report service/product financial data other than at a very highly aggregated level in the segment note to the statutory accounts. Certainly our competitors do not. There is no reason to require it of Post when the purpose of the Report is to investigate any cross-subsidy out of the reserved service, not from non-reserved service areas; and
- for some service groups the data will be relatively small. These are not material in the context of Post's \$4½ billion revenue, but may be material and unfairly useful to Post's competitors.

## **Costs**

### Reserved service costs

Even though a number of service groups are reserved to Post, we cannot support publication of their cost levels. This would put us at a commercial disadvantage.

The last official review of Post's reserved services was undertaken by the National Competition Council (NCC) in February 1998. The NCC's recommendations would have removed from the reserved service:

- small letters ordinary if purchased by business customers;
- small letters presort;
- large letters ordinary if purchased by business customers;
- large letters presort; and
- inwards international letters.

The government's reform package introduced in response would have removed from the reserved service:

- all large letters;
- small letters ordinary; and
- inward international letters.

In other words all of the current reserved service has been proposed for full market opening by either the government or its official inquiry agent within the last decade.

With this background, Post does not believe that market entry is of only hypothetical interest, and that our reserved service financial details are equally of only hypothetical interest. Post is aware now of potential competitors waiting for market opening. The ACCC listed this item – "competitive harm" – as a relevant consideration (on page 21 of the paper).

The ACCC will be aware that costs and profit margins are the items of most interest to competitors. Disclosing these will allow competitors to plan market entry (when available) that cherry-picks the more attractive service groups, while leaving less profitable volume to fund Post's community service obligations. A necessary, but unfortunate, consequence would be a rise in the basic postage rate.

The ACCC notes in the paper that, if reserved services do become open to competition, it will reconsider whether service group information should remain public knowledge.

That is not a practical position in terms of its impact on Post. By then the commercial damage will have been done. Cost levels are unlikely to move much, other than by inflation rates, and competitors will retain knowledge of our service group cost levels for a number of years after any ACCC withdrawal of previously public information.

Nevertheless, we accept that the ACCC has a reasonable interest in making some disclosure in this area for transparency reasons. To this end Post proposes that \$ values not be shown for costs at a service group level within reserved services, but that the cost shares across each service group line be shown.

For example, the cost data for small letters ordinary might be shown as:

- Direct cost 0%
- Attributable cost 91%
- Unattributable cost 9%
- Total cost 100%

Table 1 in Attachment 2 shows how this would appear in a revised Report.

#### Non-reserved service costs

It is appropriate to show Direct, Attributable and Unattributable costs at the following levels only:

- Non-reserved letters
- Parcels and Logistics
- Retail and Agency
- Other non-reserved services

Publication of financial details at a lower level would provide unfair information to competitors who are not obliged to make the same disclosures.

#### **Assets**

It is not appropriate to disclose asset data for any service groups. For a number of service groups, and for a number of asset classes, assets are uniquely assigned direct to a single part of the business. However, a large share of the fixed asset base is allocated to service groups using appropriate usage drivers. Typically these drivers are likely to be activity-based and/or cost-based, and the asset numbers, if disclosed, will give unfair insights into cost allocations across service groups.

## **Volumes**

On page 23 of the report the ACCC questions why publication of non-reserved service volumes would provide competitors with unfair commercial advantage.

Post's response is along a different line. Volume data play no part in the calculation of cross-subsidy. That being so, disclosure of non-reserved service volumes is not a necessary, or even an incidental, purpose of the legislation and its implementation.

In addition, as indicated previously, the purpose of the ACCC's reports is to assess whether there has been any cross-subsidy of non-reserved items from the reserved service. It is not a relevant purpose of the reports to assess any cross-subsidy from non-reserved service groups to other service groups.

## **Other Matters**

Report Section 6.2.5 considers the issues of identification of service groups receiving a subsidy (as calculated) and the amounts concerned.

Post has provided its support to these in Q.2 above.



## **Assessing cross-subsidy in Australia Post – An ACCC Report**

This attachment provides clarification of comments in Attachment 1, with reference to their location in the July 2006 paper entitled "Assessing cross-subsidy in Australia Post".

### **Page 2**

In the section entitled "Key Findings", there are four occasions shown as "information removed". Post recommends that the removed material be reinstated for each occasion.

### **Page 13**

In the section entitled "Did any service group receive a subsidy", there are six occasions shown as "information removed". Post recommends that the removed material be reinstated for each occasion.

### **Page 17**

In the section entitled "Conclusion", there are five occasions shown as "information removed". Post recommends that the removed material be reinstated for each occasion.

### **Tables**

Proposed tables for the revised Report are set out in the following pages. In the tables:

- XXX means revenue and cost data to be disclosed (\$ Million);
- A% means the share of a service group's total costs made up by each of Direct, Attributable and Unattributable, with the total cost for each service group equal to 100%; and
- nfp means "Not for Publication".

Table 1 Australia Post's statement of financial performance (\$m)

Service Group	Total revenue	Direct Cost	Attributable Cost	Unattributable Cost	Total Costs	TR-DC	TR-(DC+AC)	TR-TC
<b>Reserved services</b>								
Small letters ordinary	XXX	A%	B%	C%	100%	nfp	nfp	nfp
Small letters pre-sort	XXX	A%	B%	C%	100%	nfp	nfp	nfp
Large letters ordinary	XXX	A%	B%	C%	100%	nfp	nfp	nfp
Large letters pre-sort	XXX	A%	B%	C%	100%	nfp	nfp	nfp
International inward	XXX	A%	B%	C%	100%	nfp	nfp	nfp
Reserved services total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
<b>Non-reserved services</b>								
Non-reserved letters total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Parcels and logistics total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Retail & agency total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Other total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Non-reserved services total	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
<b>TOTAL</b>	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

**Table 2 Australia Post's revenue and cost (capital adjusted) for reserved services (\$m)**

<b>Service Group</b>	<b>Total revenue</b>	<b>Total (D+A+U) cost</b>	<b>Surplus</b>
Small letters ordinary	XXX	nfp	nfp
Small letters pre-sort	XXX	nfp	nfp
Large letters ordinary	XXX	nfp	nfp
Large letters pre-sort	XXX	nfp	nfp
International inward	XXX	nfp	nfp
<b>Total Reserved</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>

**Table 3 Australia Post's reserved services with all unattributable costs (\$m)**

<b>Service Group</b>	<b>Total revenue</b>	<b>Total (D+A+U) cost</b>	<b>Surplus</b>
Total reserved	XXX	XXX	XXX
Non-reserved unattributable cost adjustment		XXX	
<b>Adjusted total</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>

**Table 4 Australia Post's 'all letter services' with all unattributable costs (\$m)**

<b>Service Group</b>	<b>Total revenue</b>	<b>Total cost</b>	<b>Surplus</b>
<b>Reserved services</b>			
Small Letters Ordinary	XXX	nfp	nfp
Small Letters Presort	XXX	nfp	nfp
Large Letters Ordinary	XXX	nfp	nfp
Large Letters Presort	XXX	nfp	nfp
International Letters (Inward)	XXX	nfp	nfp
<b>Total reserved</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
<b>Non-reserved services</b>			
<b>Total non-reserved letters</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
<b>TOTAL LETTERS</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>
'Non mail' unattributable cost adjustment		XXX	
<b>Adjusted total</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>

**Table 5 Australia Post's non-reserved services with all unattributable costs (\$m)**

<b>Service Group</b>	<b>Total revenue</b>	<b>Total cost</b>	<b>Surplus</b>
<b>Non-reserved services</b>			
<b>Non-reserved letters</b>	XXX	XXX	XXX
<b>Parcels and logistics</b>	XXX	XXX	XXX
<b>Retail and financial services</b>	XXX	XXX	XXX
<b>Other</b>	XXX	XXX	XXX
<b>TOTAL NON-RESERVED</b>	XXX	XXX	XXX
All reserved unattributable cost adjustment		XXX	
<b>ADJUSTED TOTAL</b>	XXX	XXX	XXX

**Table 6 Australia Post's non-reserved non-letter services with all unattributable costs (\$m)**

<b>Service Group</b>	<b>Total revenue</b>	<b>Total cost</b>	<b>Surplus</b>
<b>Non-reserved services</b>			
<b>Parcels &amp; logistics total</b>	XXX	XXX	XXX
<b>Retail &amp; agency total</b>	XXX	XXX	XXX
<b>Other</b>	XXX	XXX	XXX
<b>TOTAL</b>	XXX	XXX	XXX
'All letters' (reserved and non-reserved) unattributable cost adjustment		XXX	
<b>Adjusted total</b>	XXX	XXX	XXX